

PILOT PROJECT FOR DEMAND-BASED EMPLOYMENT AND TRAINING SYSTEM

(TC-97-05-24-7)

EXECUTIVE SUMMARY

EXECUTING AGENCY: The Ministry of Labor and Social Welfare (Ministerio de Trabajo y Bienestar Social-MINTRABS).

BACKGROUND: The Government of Panama (GOPN) and the private sector have recognized that the development of human capital is essential for job creation and sustained economic growth, and are pushing for a reform of the existing employment and training system. Its key elements include the building of a policy making framework for promoting human capital development, and increasing the private sector's role in financing and delivering training.

MIF assistance is requested to finance a first phase of this reform to: (i) establish a structured dialogue among key actors including private sector business leaders to agree on reforms; (ii) develop policies, appropriate incentives and institutional mechanisms to manage training policies and programs; (iii) restructure financing schemes to diversify training investments and eliminate barriers to the efficient allocation of resources; and (iv) test new types of training programs to build the institutional capacity and the know-how in this sector. The proposed project would implement these actions over a three-year period, facilitating the definition of more ambitious programs for a second phase.

BENEFICIARIES: The proposed project will: (i) directly benefit 2,000 economically disadvantaged young men and women participating in the program; and (ii) improve the competitiveness of 300 participating firms and the productivity of at least 75% of their workers. Moreover, the reform and program proposals to be developed will enable the Government and the private sector to target resources more effectively to programs that aim to: (i) increase workforce competitiveness; and (ii) improve the employability of the unemployed.

OBJECTIVES: The general objective is to build initial capacity to begin the modernization of the employment and training system. The specific objectives are to: (i) develop a consensus among the public and private sectors on new training policies and programs; (ii) formulate reform proposals; (iii) stimulate the creation of a training industry; and (iv) build long-term program development and implementation capacity.

Specific results include: (i) achieving national consensus and stakeholder support for the proposed shift to a demand oriented and private- sector led reform; (ii) the introduction of new legislation to define the new organizational framework and guidelines for managing the new training system

including the liberalization of financing, the introduction of cost sharing schemes and proposed new programs; and (iii) enterprise-based training and youth training models tested in 300 firms and among 2,000 unemployed youth, respectively.

DESCRIPTION:

The proposed project has two interlinked components to advance in two areas: **Component I. Policy Development and Institutional Strengthening**, establish an institutional framework to define future training policy and guide training investments and will focus on policy and program design and capacity building (for private-sector leaders, policy makers and training specialists); and **Component II. Pilot Training Activities**, will introduce and test the effectiveness of alternative employment and training strategies, as well as provide a learning-by-doing opportunity to a wider variety of actors (enterprises, training providers, youth and workers). A public awareness campaign, to educate youth and firms about this program while also mobilizing consensus for the reform process, will be financed under this project. Together, these activities should help advance the know-how and commitments needed to define the new system and lay the ground work for the future.

A recently established public-private Employment and Training Council will help direct the reform process and oversee the project. The fact that these initiatives will be developed through a structured dialogue between private and public stakeholders, will help ensure the sustainability of this effort to create a human resource base.

FINANCING:

Modality:	Grant
MIF, Facility II:	US\$2,690,000
Counterpart/Recipient:	US\$2,690,000
Total:	US\$5,380,000

**IMPLEMENTATION
SCHEDULE:**

Execution period:	36 months
Disbursement period:	39 months

**ENVIRONMENTAL
CLASSIFICATION:**

The Environmental Management Committee, at its meeting on August 29, 1996, classified this as a Category II operation.

BENEFITS:

The **first** set of benefits will be: (i) the development of a national consensus on the needed reforms of the employment and training system; (ii) the preparation of a financial reform proposal; (iii) the establishment of a proposed institutional framework to support the system; and (iv) the development of programs that would be implemented under the new system.

The **second** set of benefits will come from the activities executed in **Component 2** which will provide concrete experiences and provide a frame of reference for implementing effective training schemes on a larger scale in the future and enrich the policy and program development process. **Pilot 1, Enterprise-Based Training** is expected to increase private sector investment in training and improve the capacity of 300 Panamanian firms to identify, select and contract

services. It is expected that the training support provided to these firms will improve the competitiveness of the 300 firms and the productivity of at least 75% of their workers. In addition, this pilot will have stimulated the development of the training market by improving the supply of training services available to small and medium enterprises.

Pilot 2, Training for Disadvantaged Youth, will directly benefit 2,000 unemployed low-income youth while also having the broader benefit of: (i) stimulating the growth of a private sector training industry; and (ii) introducing new schemes for improving the employability of labor force entrants.

RISKS:

Given the traditional role of the official training institution, National Vocational Training Institute (INAFORP) in the execution of training projects with national and international resources, the decision to give primary responsibility for this project to a public-private Employment and Training Council, along with the fact that private training providers would be encouraged to compete for public resources, could create conflicts. To minimize the risk, MINTRABS has involved INAFORP in the sector dialogue, in consultations related to project preparation and as one of the members of the Council.

The potential change in government in 1999 could affect the momentum to push the reform that currently exists. However, the fact that the private sector is driving the reform process, and that the reform is already underway should help mitigate this risk.

CONDITIONALITY:

The operation would be subject to the following conditions. Up to US\$25,000 of the MIF grant will be made available for MINETRAB to contract technical assistance to complete the action plan. Any further disbursements shall be subject to MINTRABS presenting to the Bank for its approval the following items: (i) evidence that the Council has selected a project director, acceptable to the Bank and based on terms of reference agreed upon with the Bank; (ii) an action plan including a detailed timetable with target dates for each project activity and timelines for technical assistance activities; (iii) submission of a timetable reflecting the necessary commitments by INAFORP and IFARHU to implement performance-based budgeting (para. 4.2); and (iv) evidence that the GOPN's annual contribution to local counterpart has been allocated for each year of execution.

Procedures pertaining to services contracted by the private sector and services provided by the executing agency, are detailed in Chapter IV, Disbursement and Procurement (par. 4.1).